



The Present State of Accounting Theory

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THE PRESENT STATE OF ACCOUNTING THEORY

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Introduction. To attempt an exhaustive survey of all that is usually comprehended in the expression "accounting theory"—which is what the title of this paper might be interpreted to cover—would be far too ambitious a programme on this occasion. What I propose to do is something which for me is rather more manageable, although formidable enough; and that is to offer a few thoughts about some of the recent and current thinking about "theories of accounting," which may well have for many people different connotations to "accounting theory." I shall attempt to make clear what the expression "a theory of accounting" means to me.

As I see it, the expression "a theory of accounting" can be used in at least two senses which it is desirable to distinguish. The first interprets "accounting" as a gerund (or is it a participle?), that is, the words "theory of accounting" come to mean a statement or set of statements about the activity that is known as accounting, or, in other words, propositions about *the accounting* that is carried out by people who are called accountants. Up to the present, these "theories" have been chiefly expositions or rationalisations of the recording (bookkeeping) and/or the reporting of accountable events. Such statements comprise a theory of the things that accountants do, of the accounting process or processes. The earlier theories of ac-

counts—those of Sprague,¹ Hatfield,² the French personalistic theorists, the Italian cinquecentisti and the logismographers³ come within this category.

The second interpretation possible is that of regarding the word "accounting" as a substantive or noun, meaning an area of study. A theory of accounting in this sense becomes a set of statements about the things that accountants or others interested in the field observe and think about, as well as what accountants do. This field has been explored only in more recent times than the other and has, to a great extent, developed out of it.

Admittedly, the distinction between these two interpretations is perhaps rather shadowy and subtle, and they are not altogether divorced from each other. The second might be looked on as embracing the first; that is, it might be regarded as the area for a general theory of accounting, of which a theory or theories of recording, reporting, and so on, might form a

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¹ Charles E. Sprague, *The Philosophy of Accounts*, 1907.

² Henry Rand Hatfield, *Modern Accounting*, 1909.

³ For the French personalistic theorists, the cinquecentisti and the logismographers, see Edward Peragallo: *Origin and Evolution of Double Entry Bookkeeping*, 1938.

part. Perhaps the distinction will be a little clearer after we have considered some of the recent writings in a little—but only a little—detail.

In addition to these two areas of study, however, a third one has started to attract some attention in recent years. This might be called methodology—the method used or to be used in formulating generalisations in and about accounting, in whatever sense—gerundive or substantive—this word is used. Methodology is *not* the same as technique, and I think some writers are a little confusing when they write about what they call accounting methodology and mean accounting techniques or procedures; this is one point on which we have to be on our guard; and, in my opinion, it is only in quite recent accounting literature that methodology as an instrument in theorising has been given any proper attention at all.

It is on this basis of classification of ideas that we can take a brief look at some of the recent accounting writing. I should like to make it clear, however, that I do not pretend to have made an exhaustive survey of the literature, although I hope I have covered the most significant recent contributions.

Theories of accounting—gerundive sense. Theories of the unit of accounting—in the sense of the unit from whose point of view or on whose behalf an accounting is carried out—come within this category as well as “theories” and explanations or rationalisations of accounting procedures. A brief mention of some of the earlier propositions may help to put some of the current thought in perspective.

The impression gained from reading Peragallo’s account of the French and Italian writers of the nineteenth century is one of controversy as to whether all accounts should be personalised or not, or whether they recorded values or “fictitious

moral values of rights or duties.” “Fundamentally,” says Peragallo, “logismography is based on the personalizing of all accounts which enabled Cerboni to introduce into accounting the concept of morality.”⁴ The logismographers—according to Peragallo—finally arrived at a system of virtually quadruple entry. These writers, in short, were seeking a rationalisation of double entry procedure, and some of their attempts at “explanation” seem grotesque and fantastic to us now. They were, however, attempts at a theory of the recording aspect of accounting.

In America, Sprague was a strong supporter of the proprietary notion, which emphasized the essential characteristic of recording as being carried out from the point of view of the proprietor of an enterprise. Hatfield also appears to have been an exponent of the proprietary theory. In his “Modern Accounting” (1909), he supports the anti-personalisation views of Thomas Jones and Sprague,⁵ that is, he opposed the notion of personalising all accounts, and presented his theory of double entry bookkeeping primarily in terms of a sole proprietor who owns goods and owes debts.

W. A. Paton, writing in 1922, provided one of the most forceful expositions of the entity theory, and his views have dominated American and probably English-speaking thought in this respect over the past forty years. It is true that at page 16 of his “Accounting Theory” he says that “the Accounts are kept by the employees of the business enterprise and consequently primarily from the standpoint and in the interests of the private owners” and that “the function of accounting and explanations of accounting principles and procedure must be stated immediately in terms of the needs and purposes of the owners of the individual business.” This

⁴ Peragallo, p. 113.

⁵ Hatfield, *op. cit.*, pp. 21–22.

would seem to suggest a proprietorship approach to accounting. But two pages later he states: "Although the sole proprietorship has no legal existence as an entity, and no formal steps are required for its initiation, it is nevertheless useful for the accountant to view such a business as a distinct unit for his purpose." He argues this at greater length in his third chapter and reiterates it as one of the postulates of accounting (his terminology) in his final chapter. It is almost certain that the eventual widespread adoption of the entity theory in explaining accounting procedures was chiefly due to his teaching and writing.

In the last fifteen years or so, however, some misgivings as to the universality and the theoretical usefulness of the entity theory have been expressed.

As a preliminary to his proposal and exposition of the Fund theory, W. J. Vatter⁶ strongly criticised both the proprietary and entity theories. "Neither the proprietary theory nor the entity theory is a wholly satisfying frame of reference for accounting. Each is vulnerable in that it adopts a personality as its focus of attention."⁷ Having rejected both these theories he recognises the necessity of having a unit of business as an area of attention, "but it must be a unit devoid of personal implications and at the same time sufficiently definite to make clear just where its boundaries lie; it must be one that may be applied to various forms of organization and different kinds of activities; and it must be one that has definite relation to the processes and the results that accounting is expected to achieve. Such a unit is to be found in the concept of a fund."⁸

It is not my purpose to make an exhaustive or comprehensive criticism of any of the theories propounded. This would take far too long and I think it can be safely assumed that you are familiar with the principal points of criticism and contro-

versy. In connection with the fund theory, however, it is worth while to note, in passing, that Vatter's attention appears to have been focussed firstly on the reporting function and secondly on managerial aspects of accounting; the full title of his book, it should be recalled, is "The Fund Theory of Accounting and Its Implications for Financial Reports." The proprietary and entity theories, on the contrary, were primarily and originally advanced as rationalisations of the recording function. Hence, I can't help feeling that Vatter's criticism of them, on the grounds that he uses, is largely a case of *ignoratio elenchi*, that is, of arguing to the wrong point.

Despite the influence of Paton, Gilman and others, the proprietary theory was not dying easily. Walter G. Kell, writing in 1953, favoured "the elimination of the proprietary theory" as a step towards "the further development of a single co-ordinated and consistent body of theory under the entity theory of accounting."⁹ The proprietary theory was evidently still alive.

W. Suojanen¹⁰ advanced the "enterprise" theory, which he regarded as a replacement for and improvement upon the entity theory. So far as I can make it out, the enterprise for him is a social unit composed of a group of persons having "a common purpose or purposes and, to a certain extent, rules of common action." In his view, it is not fictional, as the entity is. He applied his notion to the reporting aspect of the large corporation, and made it clear that he assumed that the enterprise

⁶ William J. Vatter, *The Fund Theory and Its Implications for Financial Reports* (1947).

⁷ *Op. cit.*, p. 7.

⁸ *Ibid.*, p. 10.

⁹ Walter G. Kell, "Should the Accounting Entity be Personalized?," *ACCOUNTING REVIEW*, Jan., 1953. See p. 43.

¹⁰ Waino W. Suojanen, "Accounting Theory and the Large Corporation," *ACCOUNTING REVIEW*, July, 1954, pp. 391 ff.

theory "refers to those corporations whose common stock is listed on national or regional stock exchanges."

Suojanen argued that an examination of corporation balance sheets and the practice of self-financing carried out by corporations supported his theory.¹¹ Whatever the virtue and value of his propositions, he clearly exhibited some dissatisfaction with the existing predominant theories of the unit of accounting. We should notice, however, that although Paton, perhaps more than anybody else, was responsible for the widespread adoption of the entity notion, he seems always to have been aware of its limitations and difficulties. In his Dickinson Lecture (1939-40) entitled "Recent and Prospective Developments in Accounting Theory," he refers to "the growing conception of the organized business enterprise, particularly the corporation, as a semi-public institution"¹² and thus appears to have anticipated Suojanen's concept by several years.

G. R. Husband struck a blow for natural persons and, it would seem, for the proprietary theory. "Natural persons," he wrote, "are both the ends and means of the free enterprise system. The entrepreneur, too, is a natural person. . . . Since in the corporation the common stockholders occupy the position of entrepreneurs, accounting is best adjusted when conducted to serve their purposes and related to their viewpoint."¹³ Whether the common stock holders do in fact occupy the position of entrepreneurs depends upon whether one interprets the function of the entrepreneur as ultimate risk-bearer or organiser; the answer is different for each interpretation.

In his article, "The Residual Equity Point of View in Accounting" George J. Staubus is really directing his attention to the problem of reporting and orientating his theory to it. Working from a starting point of cash flows, he argues that there is

always a body of residual equity holders whose interests are vital in any given enterprise. He defines the residual equity as "the equitable interest in organization assets which will absorb the effect upon those assets of any economic event that no interested party has specifically agreed to absorb."¹⁴ Accountants, he says, do focus their attention upon the residual equity when preparing general purpose reports. His book, "A Theory of Accounting to Investors," published in 1961, is an amplification of this thesis and takes its implications into the area of analysis and interpretation. It may be noted that fundamentally the Staubus theory is based upon a legal interpretation of the priority of rights and liabilities.

W. L. Raby¹⁵ argues that the economic entity is real and is "something greater than a sum of its parts," although it is "basically an economic relationship among persons." Accounting is concerned with economic entities, and accounting reports are prepared from the point of view of the entity, but "there is . . . no such thing as interpreting accounting data from the point of view of the entity." Only the entity point of view can be maintained objectively, therefore audit reports, while offering data useful for interpretation, "should refrain from engaging in interpretation." The logic here does not seem to be unimpeachable; the entity is real and can have a point of view for reporting purposes but not for interpretative purposes.

The impression one gets in reading in

¹¹ Waino W. Suojanen, "Enterprise Theory and Corporate Balance Sheets," *ACCOUNTING REVIEW*, Jan., 1958, pp. 56 ff.

¹² William A. Paton, "Recent and Prospective Developments in Accounting Theory," in *Dickinson Lectures in Accounting* (1943), p. 93.

¹³ George R. Husband, "The Entity Concept in Accounting," *ACCOUNTING REVIEW*, Oct., 1954, p. 563.

¹⁴ George J. Staubus, "The Residual Equity Point of View in Accounting," *ACCOUNTING REVIEW*, Jan., 1959, p. 9.

¹⁵ William L. Raby, "The Two Faces of Accounting," *ACCOUNTING REVIEW*, July, 1959, pp. 452 ff.

this area of accounting theory is that the writers, for the most part, are not really happy or confident about their respective theses. The entity theorists, for example, are in a difficult position: the entity started off as a purely fictional thing, something assumed for the purpose of exposition of double entry; it is now being treated as something real and, with a number of writers, as something which can do things and carry out activities of an economic and/or social nature. The real trouble, of course, is that all of these so-called theories are partial attacks on a problem that is bigger than the particular areas that they focus their attention on. *Theory of accounting—substantive or general sense.* In this category I include suggestions towards and attempts at providing a general theory of accounting, comprehensive in scope and purporting to provide a basis for all functions and areas of study of accounting and not obviously directed towards meeting a particular problem or series of particular problems. The primary test here is that the set of propositions should be:

- (a) comprehensive in the sense that they are not directed to one area or even more than one area of accounting activity to the *exclusion* or neglect of other areas;
- (b) explanatory rather than authoritarian in nature.

Paton and Littleton's "An Introduction to Corporate Accounting Standards" is difficult to categorise. It is related to reporting and therefore, on the face of it, limited to the gerundive sense of "theory of accounting." Despite this, however, I think it can justifiably be regarded as coming within the substantive category. In the preface, the authors stated that they undertook the task of preparing an outline of the basic theory underlying the "Tentative Statement of Accounting Principles

Underlying Corporate Financial Statements" published by the American Accounting Association in 1936 and prepared by the Association's executive committee. They say, for example: "We have attempted to weave together the fundamental ideas of accounting." It is an attempt to provide a comprehensive basis of theory. "Accounting theory is here conceived to be a coherent, coordinated, consistent body of doctrine which may be compactly expressed in the form of standards if desired."¹⁶

You are all no doubt familiar with the Paton and Littleton work, and it is merely a reminder to mention that their chapter on Concepts covers the following: The Business Entity, Continuity of Activity, Measured Consideration, Costs Attach, Effort and Accomplishment, and Verifiable, Objective Evidence. These "fundamental concepts or propositions of accounting . . . are in themselves assumptions in considerable measure or are predicated upon assumptions which are not subject to conclusive demonstration or proof."¹⁷

The main stream of thought in this area has largely followed the channel marked out in this early study, but there have been some interesting suggestions in other directions. We can consider some of these in more or less chronological order.

In 1948, Gordon W. Stead¹⁸ proposed Integrity as "the one all-pervading principle of accounting"—an ethical concept which he subdivided into Clarity and Stability (of decision, not results) as two other principles. Then come "canons," that is, goals derived from principles; these are literal accuracy and correct impression derived from Clarity, and con-

¹⁶ W. A. Paton and A. C. Littleton, *An Introduction to Corporate Accounting Standards* (1940), p. ix.

¹⁷ *Ibid.*, p. 21.

¹⁸ Gordon W. Stead, "Towards a Synthesis of Accounting Doctrine," *ACCOUNTING REVIEW*, Oct., 1948, pp. 355 ff.

sistency and comparability derived from Stability. These in turn give rise to standards—"measures against which conduct must be squared"—such as objectivity, taxonomy, legality, going concern, full disclosure, matching, terminology, method, accounting period, form, completeness, flexibility and materiality. Finally, he would have a body of rules or detailed mandates in particular cases.

It is worth noticing briefly a concise picture of progress in accounting thought presented by DR Scott in 1949: "As the system of accounts has become more complex and the variety of services rendered by it has increased, the general concepts and rules governing its operation have become correspondingly broader. The logical outcome of this evolution would be a consistent hierarchy of rules and principles proceeding from the specific and detailed to the more and more general until the broadest accounting principles merged into still broader principles of social organization. Throughout its modern history, accounting has been moving towards such a perfected system of theory."¹⁹ One feels that this is perhaps a little optimistic and idealistic; the perfected system of theory may be just around the corner, but how far are we from the corner?

F. R. Morgan had a critical contribution in the *Australian Accountant* in 1953. He expressed the view that "there is no accounting theory as such, but rather . . . accounting is a scientific method—the statistical tool of the business man. . . . The economic theory of the firm and of the behaviour of the business man [is] the true theory that [lies] behind the practice of accounting."²⁰ He set up three basic assumptions: (i) The firm exists to earn income. (ii) The firm is a continuous entity. (iii) The future is uncertain. He showed that these are the postulates that have to be introduced to permit an economic theory of the firm to be developed.

The first full-scale attempt in this connection is, in my opinion, Littleton's "Structure of Accounting Theory."²¹ While it fails to give a really satisfying accounting theory, it is nevertheless significant because it is an attempt to present a comprehensive and coherent statement related to all the functions of accounting. Criticism of it has probably stimulated constructive thinking about the possibilities of an adequate theory of accounting rather more than most writers would be prepared to admit, and is quite capable of continuing to do so. It falls broadly into two parts. The first deals with what Littleton calls the nature of accounting, and in this part he says something about the accounting functions of classification, recording, reporting and independent examination. In the second part (the nature of theory), Littleton appears to have got somewhat out of his depth or on the wrong track, and much of his discussion is about the use of words. His "theory" is too obviously and too directly geared to the providing of rules of action; one gets the impression that the theory he proposes or rather his "theoretical" propositions are rationalisations of practice, whether present or prospective.

This, indeed, applies in varying degrees to other writers as well. With many of them, there is not the air of intellectual detachment which one is used to in reading and studying explanatory theories in other fields. But there are some signs that this attitude of detachment is being developed.

We should also recognise the work of F. Sewell Bray in this area. His full theory is somewhat scattered through a number of published articles and books, but he did "assert a pure theory of accounting which

¹⁹ DR Scott, "The Influence of Statistics upon Accounting Technique and Theory," *ACCOUNTING REVIEW*, Jan., 1949, p. 85.

²⁰ F. R. Morgan, "Assumptions for Accountants," *Aust. Accountant*, Jan., 1953, p. 32.

²¹ A. C. Littleton, *Structure of Accounting Theory*, 1953.

seeks to apply universal concepts of structure, form and measurement to any and every economic activity which requires to be viewed by means of accounts. In short, an invariant pattern exemplifying such a view of economic activity as points to an effective use of resources."²²

Accounting Research, January 1955, contained an article by R. J. Chambers entitled "A Blueprint for a Theory of Accounting," in which the author put the view that "it is possible to build up a theory of accounting without reference to the practice of accounting. This does not mean that the theory will have no connection with reality. . . . Theory is not synonymous with remoteness from reality. . . . The fundamental premises for a theory of accounting lie outside of the field of accounting proper." He postulates four propositions as a basis for an accounting theory "which provides an ideal system against which expedient and unsystematic practices may be tested."²³ His outline is a start on a "geometrical" system, giving a few basic propositions on which a superstructure can be built.

The same author, in an article in *The Australian Accountant*,²⁴ reiterated the idea of a theory of accounting comprising (i) assumptions or axioms or premises, (ii) a chain of logical reasoning, and (iii) conclusions which may be tested against existing practices. "If the procedures indicated by the theory are found in practice, the premises and the reasoning may be considered valid."²⁵ [Quare: Why?] If, on the other hand, the hypothetical procedures are at variance with practice, then either the assumptions or premises may be inadequate, the reasoning may be illogical or there may be temporarily operating factors which prevent the practice from comparing with the theoretical model.

In "Choice Among Alternatives"²⁶ Littleton criticised the Chambers "blueprint." His article is in the nature of a

rejoinder and does not constitute a material contribution to accounting theory, but he prefaced his remarks with some pertinent observations. "There are two ways of thinking of accounting theory. One way is to consider the theory as the many explanations, reasons, justifications which will help us understand why accountancy (technology and profession) is what it is. Judging by some of the recent literature, the other way is to aim at constructing one, all-embracing theory of accounting. This 'model' would be a tightly reasoned argument arranged to justify ever wider applications of accounting to new situations."²⁷ He followed this by saying that we have had all too little of the first of these two kinds of theory, with the result that there is "widespread belief, particularly among non-accountants, that accountancy is more conventional than rational; more traditional than progressive; and that it is for the most part a loose collection of useful arts without a philosophy to cement the separate parts into an integrated whole."²⁸ He himself clearly does not subscribe to this belief, but we can ask ourselves, within our own conclave of professional techers of accounting, whether we have not ourselves at times been somewhat guilty of subscribing a little too readily to the view that accounting practices are based on conventions and doctrines which we have not examined critically enough.

Chambers, in "Some Observations on 'Structure of Account-Theory',"²⁹ while

²² F. Sewell Bray, "Accounting Dynamics," *Accounting Research*, April, 1954, p. 138. See also his "Four Essays in Accounting Theory" (1953) and "The Accounting Mission" (1951).

²³ R. J. Chambers "A Blueprint for a Theory of Accounting," *Accounting Research*, Jan., 1955, p. 25.

²⁴ R. J. Chambers, "A Scientific Pattern for Accounting Theory," *Aust. Accountant*, Oct., 1955, p. 428.

²⁵ *Op. cit.*, p. 433.

²⁶ A. C. Littleton, "Choice Among Alternatives," *ACCOUNTING REVIEW*, July, 1956.

²⁷ *Op. cit.*, p. 363.

²⁸ *Ibid.*

²⁹ R. J. Chambers, "Some Observations on 'Structure of Accounting Theory,'" *ACCOUNTING REVIEW*, Oct., 1956.

admitting the comprehensive character of Littleton's work, attacked it on a number of counts and exposed many of its weaknesses of detail.

T. R. Johnston, writing in the *Australian Accountant*,³⁰ discussed some of the earlier work, such as Bray's "principles," G. O. May's three postulates and the basic assumptions in the Chambers "blueprint," and then offered a number of "broad generalizations which help to explain the reasons for most accounting 'principles,'" viz.:

- (i) Various parties require information regarding entities of all kinds.
- (ii) Such information includes financial information, which may be obtained by recording, analysing and interpreting financial transactions.
- (iii) The nature of the financial information required of accountants will depend on several variables:
 - (a) the interest of the parties or the purposes for which it is required;
 - (b) the relative objectivity of the different kinds of information obtainable;
 - (c) the relative ease with which the different kinds of information can be obtained;
 - (d) psychological considerations.

To these he added a number of observations:

- (iv) Periodic reports are required.
- (v) For some purposes objectivity and certainty may be more important than economic considerations and vice versa.
- (vi) In certain circumstances conservatism may be considered more important than objective measurement of profit.
- (vii) In most cases consistency leads to greater accuracy, but there are some exceptions.

- (viii) Accounting generally involves estimates about which there may be legitimate differences of opinion. Disclosure will generally minimise misunderstanding.

He went on to compare accounting "principles" with common law principles and noted similarities and differences between them.

In "Detail for a Blueprint"³¹ Chambers repeated his advocacy for an accounting model and general theory developed on basic propositions and strictly logical argument. He also took advantage of the opportunity to reply to Littleton's observations made in "Choice Among Alternatives," defending his original position.

These exchanges between Littleton and Chambers have been quite entertaining and not a little instructive. Perhaps one of the main sources of difference between them might be resolved if they could be got to agree on what is meant by "reality." How is one to judge whether a proposition is or is not consistent with "reality"? What are the criteria to be used? This must be settled before there can be any hope of agreement between the protagonists in this controversy.

Accounting Research, October 1957, contained an article by R. Mattesich,³² in which the "geometrical" or model approach has been carried furthest to date. The author suggested a matrix formulation of accounting systems and provided a series of axioms, definitions, theorems and "requirements," out of each of which "one or several selective axioms (assumptions) emerge as soon as the particular accounting model is under construction." He gave mathematical proof of several of his "theorems."

³⁰ T. R. Johnston, "The Nature of Accounting Principles," *Aust. Accountant*, Jan., 1957.

³¹ R. J. Chambers, "Detail for a Blueprint," *Accounting Review*, April, 1957.

³² R. Mattesich, "Towards a General and Axiomatic Foundation of Accounting," *Accounting Research*, Oct., 1957.

A contrast to this method of approach was provided by Leonard Spacek.³³ This writer was concerned with the mode of formulating accounting principles and having them accepted and his remarks were directed towards this practical problem. "I find no satisfaction," he wrote, "... in any high-sounding theory of economic controls... the statements certified are not ours but our clients'—and our clients do not care to mix explanations of accounting theory with explanations of their business."³⁴ He advocated a court with quasi-judicial proceedings to formulate accounting principles. His "principles" are tied to reporting and to a basic criterion of fairness.

Raymond C. Dein³⁵ envisages accounting theory as "a scheme of interrelated and internally consistent ideas on the manner and the devices by which the function of accounting can be realised."³⁶ While he does not make any substantial contribution to such a theory, he does point out that: "A problem to be faced in the formulation of a theory of accounting is to determine what to select and to reject once the underlying concepts of accounting are settled, and it is not the problem of how to embrace comprehensively all that now appears in our literature."³⁷

In 1960 the American Institute of C.P.A.'s reconstituted its research organisation and appointed Maurice Moonitz as director of research to discover or formulate the postulates of accounting. The first fruits of his work appeared in print in 1961 in his name under the title "The Basic Postulates of Accounting." In this he cited the report of the Institute's special committee on research programme: "Postulates are few in number and are the basic assumptions on which principles rest. They necessarily are derived from the economic and political environment and from the modes of thought and customs of all segments of the business community."³⁸ One must raise the question: How

did this committee know all this? How, for instance, could it affirm that the postulates are few unless it knew what they are and was able to count them? And to me it seems that to say that there are assumptions without knowing what they are is itself an assumption which needs to be examined. However that may be, Moonitz did produce a number of postulates. Without detailing them, there are five about the environment of accounting, viz., A 1, Quantification, A 2, Exchange, A 3, Entities, A 4, Time period, A 5, Unit of measure; four "aspects of accounting itself which appear to be valid in every circumstance," viz., B 1, Financial statements, B 2, Market prices, B 3, Entities, B 4, Tentativeness; and five "imperatives," viz., C 1, Continuity, C 2, Objectivity, C 3, Consistency, C 4, Stable unit, and C 5, Disclosure.

Bedford and Dopuch,³⁹ argued that profit maximisation as *the* goal of business activity is giving way to other goals. They quote and appear to adopt Melvin Anshen's thesis that "making profits for owners will not be judged a sufficient test of the adequacy of the corporation's performance. Contributions to general economic growth, to advances in productivity, to innovation, to community requirements, to stability of employment, to enlarged public services, and to a variety of similar social objectives will grow in importance as criteria of management performance."⁴⁰ If such additional objectives are adopted, they say, who is to articulate the nature of the new objectives, and who is to de-

³³ Leonard Spacek, "The Need for an Accounting Court," *ACCOUNTING REVIEW*, July, 1958.

³⁴ *Op. cit.*, p. 368.

³⁵ Raymond C. Dein, "The Future Development of Accounting Theory," *ACCOUNTING REVIEW*, July, 1958.

³⁶ *Op. cit.*, p. 400.

³⁷ *Ibid.*, p. 395.

³⁸ Maurice Moonitz, *The Basic Postulates of Accounting* (1961), p. 1.

³⁹ Norton M. Bedford and Nicholas Dopuch, "The Emerging Theoretical Structure of Accountancy," *Business Topics*, Autumn, 1961.

⁴⁰ *Op. cit.*, p. 60.

velop criteria for evaluating success in attaining them? The measurement and communication of the activities would be a task for accountants. "At the level of theory," they say, "the structure of accounting should be broad enough to permit business units the widest possible latitude in defining and achieving their goals. It should provide for the means whereby different entities could have quite different sets of goals and yet be subject to the accounting measurement and communication function."⁴¹ This, of course, is not a theory of accounting, but it gives a suggestion of the broadening outlook which accounting theorists may well have to take into consideration in the near future.

The current year has seen the publication of a further elaboration of his theory by Chambers.⁴² In this, he takes the basic assumptions back into the field of psychology and human behaviour. His argument "has been dictated by the desire to proceed piece by piece to build up the case from a simple example to a more complex one, and gradually to introduce principles relating to accounting method and to relax simplifying assumptions."⁴³ He lists some forty postulates or "characteristics of the world of action which have been used as foundation for the derived statements relating to accounting," and gives a definition of accounting as "a method of monetary calculation designed to provide a continuous source of financial information as a guide to future action in markets."⁴⁴ He then gives twenty-one principles or "statements relating to the general nature of accounting which have emerged from the foundations."

During this year we have also seen the publication by the American Institute of a further study by Sprouse and Moonitz on accounting principles.⁴⁵ This has so far met with a considerable amount of adverse comment and one gets the impression that these "principles" do not seem to have

much chance of being officially adopted by the profession in America.

Methodology. In the last three or four years there has been marked quickening of interest in methodology in relation to accounting theory and several articles have appeared as evidence of this. We can look briefly at some of these.

In the ACCOUNTING REVIEW, July 1958, C. Park,⁴⁶ saw as the methodology to be used in this area (i) the application of scientific method, (ii) the avoidance of logical fallacies, of which he gave a number of examples, and (iii) intuitiveness or insight, to give the necessary creative development of new ideas.

In the same Journal in the following year, Brother La Salle⁴⁷ also made the point that we need creative research in accounting and deprecated the idea of authoritarianism for the establishment of accounting principles. He then went on to state the elementary bases of research methods, saying a little about each of inductive and deductive reasoning, establishment of cause and effect relations (the methods of agreement, difference, concomitant variation and residue), and the historical, analytical, experimental and statistical methods of research, with a final plea for publication of results.

Carl T. Devine⁴⁸ argued that "the *first* order of business in constructing a theoretical system for a service function is to

⁴¹ *Ibid.*, p. 63.

⁴² R. J. Chambers, *Towards a General Theory of Accounting*, published by the University of Adelaide in conjunction with the Australian Society of Accountants (1962).

⁴³ *Op. cit.*, p. 39.

⁴⁴ *Ibid.*, p. 43.

⁴⁵ R. T. Sprouse and M. Moonitz, *A Tentative Set of Broad Accounting Principles for Business Enterprises* (1962).

⁴⁶ Colin Park, "Thought Processes in Creative Accounting," ACCOUNTING REVIEW, July, 1958.

⁴⁷ Brother La Salle, "Basic Research in Accounting," ACCOUNTING REVIEW, Oct., 1959.

⁴⁸ Carl T. Devine, "Research Methodology and Accounting Theory Formation," ACCOUNTING REVIEW, July, 1960.

establish the purpose and objectives of the function. . . . The benefits of scientific method cannot be seriously questioned, but scientific method cannot solve all problems of society. . . . Accountants may not be able to reshape the ethical thinking of the age, but they can make a small contribution by recognizing their social responsibilities, and building their practical structure to help fulfill these responsibilities."⁴⁹ He points out that scientific method partakes of both deductive methods and empiricism and postulates these significant areas as instruments or influences in research in accounting: Logical structure and deductive systems; measurement and induction; behavioural relations; and welfare and normative responsibilities.

Malcom L. Pye⁵⁰ first of all rejects Spacek's idea of an accounting court, because "there are no laws (principles of accounting) which are to be used as a guide (the problem is one of establishing such principles), no method of appealing any verdict, nor any means of changing laws to obtain equity. Since the professed purpose of the court is one of establishing principles, it would seem that its function would be more legislative than judicial."⁵¹ He also casts some doubt on the usefulness, or at any rate on the universal usefulness, of the deductive method in establishing accounting principles: "that deductive analysis is very useful in obtaining a logical consequence of a major and minor premise has been demonstrated for centuries, but whether such logical consequences can serve as accounting principles is highly doubtful. The major premise may serve as the accounting principle, but deductive reasoning starts with the premise."⁵² The inductive method has been most successful in establishing scientific principles in the last few centuries, but the most important element—that of demonstrating the validity of the hypothesis by experiment or further observa-

tion—is often not available for accounting propositions. He advocated the use of the theory of probability to the selection of alternative propositions after giving appropriate, but not necessarily numerical or absolute, weights to the reasons for and against each proposition. He gave an illustration which does not seem altogether convincing.

The following issue of the ACCOUNTING REVIEW contained an article on scope and method by Myron J. Gordon.⁵³ The author restricted his consideration of accounting theory to the measurement of income and wealth, but he had some interesting points on the purpose of theory. "Accounting theory in the measurement of an economic entity's income and wealth involves the discovery and in some sense the verification of principles or rules which will make the practice of accounting in the actual tasks of measurement more effective."⁵⁴ "A theory consists of a set of definitional, classificational, and causal statements that combine in a logical way to provide an explanation of how something happens. . . . Research . . . involves (1) the construction of such theories, (2) comparative analysis of theories by deductive argument and appeal to reason, (3) the collection of relevant data, and (4) the design, execution, and interpretation of experiments with the data for the purpose of verifying propositions that are implied by a theory."⁵⁵ He says, however, that "accounting theory is largely deductive in nature" and that "there appears to be little room for empirical research."⁵⁶

⁴⁹ *Op. cit.*, p. 399.

⁵⁰ Malcolm L. Pye, "Reasons, Probabilities, and Accounting Principles," ACCOUNTING REVIEW, July, 1960.

⁵¹ *Op. cit.*, pp. 442-443.

⁵² *Ibid.*, p. 438.

⁵³ Myron J. Gordon, "Scope and Method of Theory and Research in the Measurement of Income and Wealth," ACCOUNTING REVIEW, Oct., 1960.

⁵⁴ *Op. cit.*, p. 603.

⁵⁵ *Ibid.*, p. 605.

⁵⁶ *Ibid.*, p. 607.

In "The Conditions of Research in Accounting,"⁵⁷ Chambers argued for the application of research in accounting in the same fundamental sense as in the sciences. "The first condition of research in accounting is the belief that accounting can be studied scientifically."⁵⁸ The attitude towards the subject can be essentially the same as in the sciences even though not all the methods of natural science may be appropriate to the study of accounting. He also proposes that the field should be regarded as "co-extensive with all human action in its economic aspects," and envisages a hierarchy of levels of abstraction in the formulation or recognition of concepts. There shall be no admitted authorities, no temporal or territorial limits to enquiry, no limits to imaginative thinking or to freedom of thought and investigation.

Another article by Bedford and Dopuch,⁵⁹ appeared in July 1961. In this, they criticised some of the points raised by Devine in his article of the previous year. They argued that the development of accounting theory should advance as a hierarchy of explanations, the facts on the lowest level being explained by theories and then each theory in turn being explained by theories on a higher level. This is essentially the same view as other writers had expressed, but they also introduce a hint of the problem of communication and suggest, even though faintly, that accounting problems of communication may be on three levels, viz., technical problems, semantic problems, and problems of effectiveness, that is, problems of effect on conduct.

Dwight P. Flanders,⁶⁰ set out to show that relationships exist between accounting on the one hand and, on the other, philosophy (especially epistemology and ethics), history, arts, science and what he calls tools (grammar, mathematics and logic). He postulated five methodological requirements:

"A principle is:

1. An abstract generalization.
2. Expressible as a functional relationship of two or more variables, preferably variables capable of being quantified.
3. Able to meet a test of logical consistency.
4. Able to meet a test of empirical correspondence.
5. Expressible as a causal relationship."⁶¹

"There is some analogy," he goes on, "between the present state of accountancy and Galilean physics, for both were arrived at by largely inductive analysis. Later Newtonian physics permitted the deduction of Galilean propositions. There is no exact parallel here as yet, but it seems to this writer that the methodological ferment in accountancy reflects the search for a broad gauge 'Newtonian' theory of accountancy."⁶²

Finally, in this area of methodology, Dopuch⁶³ has sought to establish a connection between accounting theory and the chief tenets of the metaphysics of pragmatism. "... More extensive consideration of the attitude of the pragmatist concerning social and individual psychology ... and the theory of valuation ... is needed in order to understand and operate with the motivation of human behavior ... there is also an absolute need to be familiar with the latest developments in scientific decision-making and especially the criteria and method of decision-making under conditions of uncertainty and risk."⁶⁴ This, I can't help feeling, is beginning to ask rather a lot of an accounting theorist. If he

⁵⁷ R. J. Chambers, "The Conditions of Research in Accounting," *Journal of Accountancy*, Dec., 1960.

⁵⁸ *Op. cit.*, p. 35.

⁵⁹ Norton M. Bedford and Nicholas Dopuch, "Research Methodology and Accounting Theory—Another Perspective," *ACCOUNTING REVIEW*, July, 1961.

⁶⁰ Dwight P. Flanders, "Accountancy, Systematized Learning and Economics," *ACCOUNTING REVIEW*, Oct., 1961.

⁶¹ *Op. cit.*, p. 569.

⁶² *Ibid.*, p. 574.

⁶³ Nicholas Dopuch, "Metaphysics of Pragmatism and Accountancy," *ACCOUNTING REVIEW*, April, 1962.

⁶⁴ *Op. cit.*, pp. 261-262.

ought to study the metaphysics of pragmatism, why not also the metaphysics of other philosophical systems? Is it going to become necessary to be a professional philosopher before embarking upon any venture into accounting theory? If so, we are certainly travelling far and fast without getting anywhere in particular.

Conclusion. What I think this survey does show is that there are signs of an awakening of interest by academic accountants (and some others) in the potential intellectual dignity of accounting as an area of study. But while there has been a great deal of talk about the need for and advantages of a comprehensive theory of accounting and the means of arriving at it, not very much has been done by way of positive and convincing contributions to it.

To quote from one additional recent article: "Up to and including the present time, most accounting theory has evolved from the pragmatic approach. This approach asserts [that] the sole test of truth, or soundness, lies in practical results. . . . The obvious shortcoming of this method is that no control exists over the aims or

desires of business, and therefore no control exists over what may be considered 'useful.' It follows that there then exists no usable criterion for testing either theory or application except that someone wants to produce a certain result. . . . One difficulty with present accounting theory lies not in the existing differences of opinion but in the lack of any sense of direction in which we should be moving to make accounting what it should be, a primary, accurate, and dependable source of information for all who are seeking reliable data about the operations of a given financial entity."⁶⁵

Hatfield in 1923 may have been content to let the respectability of accounting rest upon its venerability and centuries-old origin. In 1962 this is not sufficient; we need to find something more than a rather barren field of intellectual endeavour. Perhaps we are about to find the trace elements which will make the field much more productive, but the continuation of efforts along traditional lines will not help much if it produces an overabundance of literary foliage and no fruit.

⁶⁵ Delmer P. Hylton, "Current Trends in Accounting Theory," *ACCOUNTING REVIEW*, Jan., 1962, pp. 24-27.